

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN	)	
WATER COMPANY FOR ISSUANCE OF	)	
INDEBTEDNESS AND CONTINUED	)	CASE NO.
PARTICIPATION WITH AMERICAN WATER	)	2015-00400
CAPITAL CORP.	)	

ORDER

Kentucky-American Water Company ("KAWC") has applied for authorization ("Application") to continue its participation in the American Water Capital Corporation ("AWCC") borrowing program. By this Order, we authorize KAWC's continued participation in the AWCC borrowing program, and the issuance of securities in the form of notes or debentures in the amount of \$12,250,000 prior to December 31, 2017.

KAWC, a Kentucky corporation, owns and operates facilities that treat and distribute water to the public for compensation in Bourbon, Clark, Fayette, Gallatin, Grant, Harrison, Jessamine, Owen, Scott, and Woodford counties, Kentucky. It provides wholesale water service to Harrison County Water Association, East Clark County Water District, Jessamine-South Elkhorn Water District, Peaks Mill Water District, Nicholas County Water District, and the cities of Georgetown, Midway, North Middletown, Nicholasville, and Versailles.<sup>1</sup> KAWC also owns and operates facilities that

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<sup>1</sup> *Annual Report of Kentucky-American Water Company AKA Kentucky American Water for the Calendar Year Ended December 31, 2014* at 11 and 61.

treat waste water for the public for compensation in Clark, Owen, and Bourbon counties, Kentucky.<sup>2</sup> It is a utility subject to Commission jurisdiction.<sup>3</sup>

American Water Works Company (“American Water”), a Delaware corporation whose operating subsidiaries provide water, wastewater, and other water resource management services in 30 states and Canada, currently owns all outstanding shares of KAWC stock. AWCC is a wholly owned subsidiary of American Water and is a corporation organized under the laws of Delaware.

In 2000, KAWC sought and received Commission authorization to participate in a borrowing program that American Water made available to each of its subsidiaries under a Financial Services Agreement.<sup>4</sup> Under the borrowing program, each American Water subsidiary enters into an agreement with AWCC for financial services. AWCC arranges for a syndicated bank credit line to provide for short-term loans and registers its own debt securities for sale in the public market by filing shelf registration with the U.S. Securities and Exchange Commission. Each participant provides AWCC with an estimate of its future borrowing requirements. AWCC then arranges borrowing commitments and programs to meet these commitments. The liability of each participant is limited to its individual debt. All loans to the program participants are unsecured.

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<sup>2</sup> KRS 278.010(3)(d).

<sup>3</sup> Annual Report of Kentucky American Water Company aka Ky. American Water, Sewer Div. for the Calendar Year Ending December 31, 2014 at 9.

<sup>4</sup> Case No. 2000-00189, *The Application of Kentucky-American Water Company for Approval of Participation in the Borrowing Program* (Ky. PSC July 21, 2000).

In support of its 2000 application, KAWC asserted that pooling the borrowing requirements of American Water and its subsidiaries would result in lower capital costs. Because the issuance costs<sup>5</sup> associated with debt instruments will generally remain constant regardless of the size of the issuance, the pooling of long-term debt requirements would produce a reduced pro rata share of issuance costs for the program participants. KAWC further asserted that larger-sized debt issuances in the public market produced more favorable terms because lenders of larger loans are able to share their risk with others.

After considering KAWC's 2000 application, the Commission found that KAWC's entry into the proposed Financial Services Agreement was appropriate for its provision of utility service and authorized KAWC to enter into the agreement and to issue securities in the form of notes or debentures in the amount of \$41,500,000 prior to December 31, 2005.<sup>6</sup> In Cases No. 2006-00418,<sup>7</sup> No. 2009-00156,<sup>8</sup> No. 2011-00115,<sup>9</sup> and No. 2012-00393,<sup>10</sup> the Commission authorized KAWC's continued participation in the AWCC borrowing program.

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<sup>5</sup> Placement fees and legal fees are examples of issuance costs.

<sup>6</sup> Case No. 2000-00189, *The Application of Kentucky-American Water Company for Approval of Participation in the Borrowing Program* (Ky. PSC July 21, 2000).

<sup>7</sup> Case No. 2006-00418, *Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp* (Ky. PSC May 8, 2007).

<sup>8</sup> Case No. 2009-00156, *Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp*. (Ky. PSC May 29, 2009).

<sup>9</sup> Case No. 2011-00115, *Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp*. (Ky. PSC May 26, 2011).

<sup>10</sup> Case No. 2012-00393, *Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp*. (Ky. PSC Oct. 29, 2012).

AWCC has in place a \$700 million Commercial Paper Program with a committed revolving facility backstop of \$840 million (collectively, the "Working Capital Facility").<sup>11</sup> The \$840 million Working Capital Facility will be used to fund the working capital needs of American Water, its regulated subsidiaries, and American Water Works Service Company.<sup>12</sup> Of the committed revolving credit facility, \$150 million is available to AWCC for letters of credit.<sup>13</sup> AWCC has obtained funds from a syndicated bank credit line for short-term loans and from its own debt securities, all with the support of American Water.<sup>14</sup>

KAWC's continued participation in the AWCC borrowing program will include support of the short-term debt issuances. As of September 30, 2015, KAWC reported outstanding short-term debt in the amount of \$19,144,121 payable to AWCC.<sup>15</sup>

KAWC plans two long-term debt issuances, in the amounts of \$7,250,000 and \$5,000,000, to be issued in May 2016 and November 2017, respectively. The proceeds of these debt issuances will be used to refinance short-term debt used to fund various construction expenditures, and to meet other internal cash requirements.<sup>16</sup>

To maintain a reasonable relationship between long-term debt and common equity, KAWC expects infusions of additional equity from American Water in the form of paid-in capital in the amounts of \$10,000,000 in 2016 and \$2,000,000 in 2017.

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<sup>11</sup> Application, numbered paragraph 8.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> Application, numbered paragraph 9.

<sup>16</sup> Application, numbered paragraph 10.

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that:

1. KAWC's previous participation in the borrowing program with AWCC has resulted in a reduction to the cost of KAWC's short-term and long-term debt.<sup>17</sup> Its continued participation should result in similar reductions.

2. KAWC's continued participation in the borrowing program with AWCC under the terms of the Financial Service Agreement that it executed with AWCC on June 15, 2000, is for a lawful object within the corporate purpose of its utility operation, is necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes.

3. KAWC's proposed issuance of securities in the form of notes or debentures in an aggregate amount of \$12,250,000 for the purposes of refinancing the short-term debt used to fund various construction projects and to meet other internal cash requirements is necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes and should be approved.

4. The specific terms and conditions of each issuance under the borrowing program set forth in the Financial Services Agreement are not known at this time. Therefore, KAWC should be required to advise the Commission in writing of the terms and conditions of each issuance covered by the borrowing program.

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<sup>17</sup> KAWC's Response to Commission Staff's First Request for Information, Item 3.b. (filed Dec. 29, 2015).

5. KAWC should obtain Commission approval prior to the issuance of any security or long-term evidence of indebtedness not specifically set forth in its Application and included in the \$12,250,000 refunding or refinancing.

IT IS THEREFORE ORDERED that:

1. KAWC is authorized to continue participating in the AWCC borrowing program under the terms of the Financial Services Agreement that it executed with AWCC on June 15, 2000.

2. a. KAWC is authorized to issue to AWCC securities in the form of notes or debentures in an aggregate amount of \$12,250,000 from time to time, prior to December 31, 2017, for the purpose of refinancing the short-term debt used to fund various construction expenditures and to meet other internal cash requirements.

b. KAWC shall obtain an interest rate from AWCC that is no greater than the lowest available rate to KAWC or the average rate available on bonds issued by AWCC.

3. At least 15 days prior to KAWC's issuance of any notes or debentures that have been authorized herein, KAWC shall notify the Commission in writing of the proposed issuance. In this notice, KAWC's President and Treasurer shall certify under oath the amount of the issuance and that the debt issuance does not exceed the total amount authorized in this Order.

4. For all securities or evidences of indebtedness that have a term exceeding two years and that are issued under the Financial Services Agreement's borrowing program, KAWC shall file a report detailing the terms and conditions of the particular securities issued. It shall include an analysis showing that the interest rate for the

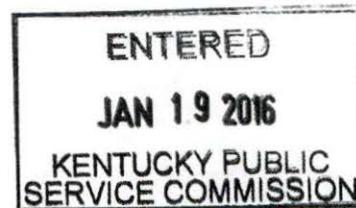
securities was the most reasonable under the circumstances at the time of the issuance. This analysis shall also include a comparison of the interest rate obtained to the lowest rate available to KAWC and the average interest rate on bonds issued by AWCC. This report shall be filed with the Commission within ten days of the completion of issuance.

5. KAWC shall obtain Commission approval prior to the issuance of any security or long-term evidences of indebtedness not specifically set forth in its Application and included in the \$12,250,000 approved herein.

6. Any documents filed pursuant to ordering paragraphs 3 and 4 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

By the Commission



ATTEST:

  
Executive Director

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